

CITY OF HOUSTON, TEXAS

FY 2004 OMB A-87 COST ALLOCATION PLAN

Based on the Actual Expenditures

For the Fiscal Year Ended June 30, 2002

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I. Introduction

INTRODUCTION

Prepared by the Department of Finance and Administration, City of Houston, Texas, (the City), the **FY 2004 OMB A-87 Cost Allocation Plan** (the Plan) for indirect services provided by central service departments of the City is based on the actual expenditures for the fiscal year ended **June 30, 2002** (the base year).

METHODOLOGY

The Plan has been prepared in conformity with Generally Accepted Accounting Principles applied on a consistent basis. A consistent approach has been followed in the treatment of costs as direct or indirect costs; in no case have costs that have been charged as direct costs to programs been included as indirect costs. Expenditure information has been obtained from the City's expenditure reports for the base year. Statistics used to allocate costs are from full base year's or a representative sample period's data.

A double step-down allocation procedure has been used to distribute costs of central services to other City departments that receive benefits (the user department). The procedure initially requires a sequential ordering of departments. Department indirect cost allocations are then made in the order selected to all user departments. To ensure that the cross-benefit of services among central service departments is fully accounted for, a second

step-down allocation from each central service department is made.

Costs allocated from each central service department consist of the following:

First Allocation - includes the actual operating expenditures for the department and all allocated costs from other central service departments which have been identified up to this point.

Second Allocation - allocated costs from other central services made subsequent to that department's first allocation.

With respect to the double step-down methodology, two important points should be noted:

(1) The initial sequencing of departments has been made in consideration of the ordering which maximizes the benefits of services, and

(2) After the second allocation, that user department is "closed" and can not receive any additional allocation from other central services.

FORMAT

The Plan begins with a **Table of Contents** that can be used to locate the following Summary Data and Detail Data of the Plan.

Summary Data - Three summary schedules are provided at the beginning of the Plan.

(1) Allocated Costs By Department (Schedule A) - provides the costs allocated from each central service department to each user department. The central service departments are

listed in the first column and the user departments detailed in the Plan are listed across the top of the page with a total listed on the last page of the schedule.

(2) Summary of Allocated Costs (Schedule C) - shows the total expenditures and cost adjustments allocated by central service departments. The total \$ amount allocated to each user department is also shown.

(3) Summary of Allocation Basis (Schedule E) - provides the basis used to allocate the costs for each function of every central service department.

Detail Data

Sections on each central service are presented in the following format:

(1) Nature and Extent of Services - It is a narrative description of the central service and all functions that are identified. Also, described are the allocation basis used for each function and any other relevant information on expenditures.

(2) Costs to be Allocated - It presents the total costs to be allocated based on the actual expenditures from the financial statements and the allocated additions that represent costs allocated to the central service from other central services.

(3) Costs to be Allocated by Function - Costs for each central service department are listed by function to the extent deemed necessary to ensure the application of allocation basis which most closely correlate with the benefits received by user departments. Total costs allocated are the same as reflected on the previous schedule. Functions of the central

service are listed across the top of the page.

(4) Detail Allocation - A detailed schedule of the allocation of each function is provided for all allocated functions except for General Administration. Costs of General Administration are first allocated to all other departmental functions in proportion to functional costs. The schedule lists the user department's allocation of each function of the central service department.

(5) Departmental Cost Allocation Summary - The last schedule in each central service shows a summary of the costs allocated by function. The user departments are listed in the first column of the page and the central service functions are listed across the top of the page.

II. Certification by the Responsible City Official

CITY OF HOUSTON, TEXAS

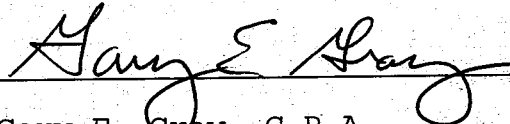
FY 2004 OMB A-87 COST ALLOCATION PLAN

CERTIFICATION BY THE RESPONSIBLE CITY OFFICIAL

I hereby certify as the responsible official of the City of Houston, Texas, that the information contained in this FY 2004 OMB A-87 Cost Allocation Plan based on the actual expenditures for the fiscal year ended June 30, 2002, is correct and has been prepared in accordance with the policies and procedures contained in OMB Circular A-87. I further certify that a consistent approach has been followed in treating a given type of cost as direct or indirect and that in no case have costs that have been charged as direct costs of federally supported programs been included in the indirect costs in this Plan.

June 16, 2003

Date



Gary E. Gray, C.P.A.

Assistant Director

Finance and Administration Department

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HELPING GOVERNMENT SERVE THE PEOPLE®

June 9, 2003

Gary E. Gray, CPA
Assistant Director
Finance and Administration
City of Houston
611 Walker
Houston, TX 77002

Dear Mr. Gray:

MAXIMUS, Inc. (MAXIMUS) has completed our limited review of the OMB Indirect Cost Allocation Plans (Plans) for the City of Houston, Texas, the Houston Police Department, and the Houston Fire Department for the FY 2004 based upon actual expenditures for FY 2002. Jane Kuo has answered all of our questions and concerns sufficiently and it is our understanding that adjustments have been made to the cost allocation plans. We believe that the cost allocation plans are acceptable for review by the federal negotiators for HUD, the Federal Aviation Administration and/or any other federal or state agencies that audit or review the City of Houston's Indirect Cost Allocation Plans.

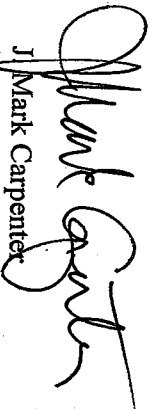
We reviewed the Plans for reasonableness, consistency, and compliance with OMB Circular A-87. As we discussed earlier, the limited scope and budget in this project did not allow us to verify all financial data and allocation base information. However, we identified those areas where verification was needed and understand that the City has made adjustments, where needed. In summary, we feel that the allocation bases that were used in the final version provide for an equitable allocation to grant programs and all other citywide programs that receive service from the City of Houston's central service departments. Each basis reflects a quantitative presentation of the activity's cost of service. The allocated costs are allowable by the OMB Circular A-87, and the unallowable costs have been identified and disallowed.

Overall, the City of Houston's OMB Circular A-87 cost allocations plans were prepared quite competently and were well documented. MAXIMUS appreciates the opportunity to assist the City of Houston with the review of the internally prepared indirect cost allocation plans.

Please let us know if you require further assistance in any cost analysis project or issue that you may encounter in the coming months and years.

Sincerely,

MAXIMUS, INC.



J. Mark Carpenter
Senior Manager

JMC/snn

III. Organizational Chart

ORGANIZATION CHART

